

JANET NAPOLITANO GOVERNOR

R. L. Brown, Chairman 19446 Willow Creek Circle Sun City, Arizona 85373 (623) 523-0188 rlbrownreports @ aol.com

Gary P. Brasher, Vice Chairman P. O. Box 4241 Tubac, AZ 85646 (520) 245-6942 aliso4@aol.com

Frank Dickens, Member 1120 W. University Ave., #200 Flagstaff, AZ 86001 (928) 774-4579 frankdkns@msn.com

Vicki L. Cox Golder, Member 3415 E. Golder Ranch Road Tucson, AZ 85739 (520) 825-3922 vcgold@dakotacom.net

Colleen Newman, Member 2833 S. 4th Avenue

Yuma, AZ 85364 (928) 344-4848 remaxone @ adelphia.net

Vince Pellerito, Member

8316 E. Edgemont Ave. Scottsdale, AZ 85257 (480) 946-4310 vincar@mindspring.com

Lisa A. Suarez, Member 6816 N. Oracle Road #300 Tucson, AZ 85704 (520) 544-2727 lisa@emsrealty.com

Ann White, Member 5151 E. Broadway Blvd. #200 Tucson, AZ 85711 (520) 747-0997 ann.white@lennar.com

Felipe Andres Zubia, Member 4800 N. Scottsdale Rd. #6000 Scottsdale, AZ 85251 (480) 429-3062 fzubia@beusgilbert.com

ARIZONA REAL ESTATE ADVISORY BOARD 2910 N. 44TH STREET, SUITE 100 PHOENIX, ARIZONA 85018

October 20, 2005

The Honorable Janet Napolitano Governor of Arizona 1700 West Washington Street, 9th Floor Phoenix, Arizona 85007

Dear Governor Napolitano:

The Arizona Real Estate Advisory Board is pleased to render this annual report to the Governor as a part of our statutory duties and responsibilities. We have summarized herein the major activities and events that have impacted the Arizona Department of Real Estate and its stakeholders over the last year.

We are once again pleased to report to you that Real Estate Commissioner Elaine Richardson and her entire staff have continued to take strong steps to meet the challenges of growth in licensees and subdivisions throughout the State over the past year and to mitigate the impact of this rapid expansion while performing a high level of service to the public and to the Department's stakeholders.

The Department has continued an aggressive and effective outreach to and involvement of its stakeholders. The stakeholders have responded positively and with enthusiasm to extensive ongoing participation in the reworking of major areas of the Department's activities, continuing a revived spirit for both the stakeholders and the Department's professional staff. This continued enhanced cooperation and participation has produced very positive results and allowed the Department to handle the increased workloads as efficiently and effectively as possible while maintaining positive ties with stakeholders and effective response to the public.

We are pleased that the communication between "regulator" and "regulated" remains at a high level, with a spirit of mutual respect and cooperation continuing to grow daily.

With the support of Commissioner Richardson, the Advisory Board has taken and continued a proactive relationship with staff and has participated in policy, liaison, personnel, and legislative matters on behalf of the Department to the benefit of both the Department and the stakeholders.



ARIZONA REAL ESTATE ADVISORY BOARD 2910 N. 44TH STREET, SUITE 100 PHOENIX, ARIZONA 85018

The Honorable JANET NAPOLITANO Governor

October 20, 2005 Page 2

The problems which remain to challenge the Department are largely related to the Department's ability to adequately staff to meet the needs of a constantly growing number of licensees and the burgeoning real estate industry in Arizona. The Department generates sufficient annual revenues through its fees to adequately protect the interest of the public and serve its industry stakeholders. However, these funds are not being appropriated to the Department but are becoming General Funds of the State. As noted elsewhere herein, the Department had revenues of \$5.104 million this year or \$1.896 million over its appropriation. The Department urgently needs additional legislative assistance to be able to be self-sustaining to best serve the public and its stakeholders.

We expect that the real estate industry in Arizona will continue at a level at least as high as it is at the present time, that the numbers of licensees will continue to grow, and that the need for vigilant oversight, judicious regulation, and enhanced industry involvement will grow even more. The Advisory Board believes that, given steady and adequate funding, the Department of Real Estate and Commissioner Richardson and her staff are well positioned to meet the challenges of this growth and enhanced complexity over the foreseeable future.

Respectfully submitted,

R. L. Brown, Chairman



Summary of ADRE Accomplishments for Fiscal Year 05

- Perhaps the single most significant event of Fiscal 05 was the implementation of the online license renewal system on February 14, 2005. The response has surpassed the expectations of not only the development team but also GITA and IBM. At its current usage rate, the system is on track to be the fastest "ramp-up" of any other State online system.
- The Commissioner and Staff continue to reach out to stakeholders for problem identification, solution development, and policy implementation.
- Established on-line viewing by the public and stakeholders of the Subdivision Public Report documents, allowing the public complete access to the Public Report information on subdivisions that they are considering purchasing homes in, including pre-owned homes in existing subdivisions.
- Produced "Arizona Real Estate and You", a consumer guide for those buying or selling a house and need some help navigating a smooth course through the real estate transaction process. This is also available in Spanish. The guide was produced at no expense to tax payers of Arizona.
- Continued involvement in the Arizona-Mexico Commission. As Co-Chair of
 the Real Estate Ad Hoc Committee, the Commissioner has worked to
 promote the establishment of a Sonora counterpart committee, create a
 <u>BUYING PROPERTY IN MEXICO</u> brochure, worked in concert with ADRE
 Subdivision staff to streamline the Public Report process for developers in
 Sonora marketing to Arizona consumers and has been instrumental in
 promoting professional standards for real estate agents in Sonora.
- The revising of time-frame provisions to appropriately reflect the realities of Department processing challenges.
- Establishment of an email-based "Late Breaking News" system wherein licensees and stakeholders are advised of important events, Statute, and rule changes.
- Continued to dramatically strengthen enforcement efforts, pursuing predatory agents, minimizing the issuance of waivers, working in concert with more agencies for cross-jurisdictional cases (FBI, HUD, Attorney General's criminal division, etc.,) to help protect the public.
- Developed extensive new internal tracking and reporting systems to enhance both communication and performance measurement capabilities within the Department.

Page 1 of 3

ACCOMPLISHMENTS (CONTINUED)

- Contributed \$1,896,000 over and above our appropriated funds to the State general fund.
- Worked diligently for passage of HB 2184 which served to clarify parts of the Subdivision Statutes.

For Fiscal 05, the Department's appropriation was \$3,208,400. The Department has consistently generated more revenue than it has been appropriated. In Fiscal 05, the Department generated \$5,104,000 in revenue. This is 59 percent or \$1,895,600 over and above its appropriation.

By law, all monies generated by the Department must be deposited into the State General Fund. Also, according to A.R.S. §32-2103, the Commissioner is to set fees so that the revenue the Department generates comes to within 95 percent to 110 percent of its appropriation. For the past two fiscal years, the Legislature has chosen to override this statute.

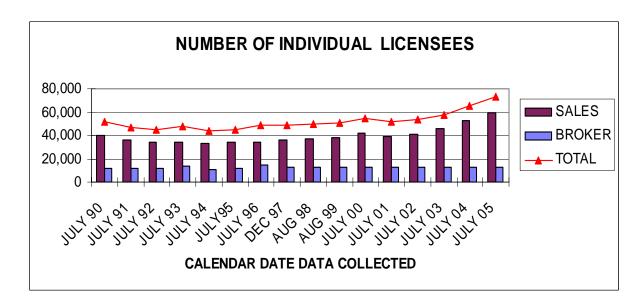
As part of its appropriation, the Department has been allocated 65.4 full time positions. Due to the budget reductions, the Department has been unable to fill eight positions or approximately 12.2 percent of its staffing levels. The vacant positions include licensing staff, investigators and subdivision representatives.

Despite the lack of funding and staffing shortages, the real estate industry continues to grow. Record numbers of people are taking the real estate examination and the number of licensees has grown from 53,478 in July 2002 to 76,110 in September 2005. This equates to an increase of approximately 42.3 percent. The total does not include another 8,500 business entities holding licenses. In FY 05, the Licensing Staff processed a record 79,500 applications.

continued

ACCOMPLISHMENTS (CONTINUED)

The following graph indicates how much the licensing population has grown from July 1990 through July 2005. Note the growth in the past five years.



To support the finding of the economic community that the real estate industry in Arizona has been the "underpinning" of the Arizona economy during the past recession, during FY 05, the subdivision staff processed 2,171 applications. This number includes 998 new home subdivision applications, up 10.4 percent from last year. This growth is on top of a 24 percent increase in the number of applications received over the course of FY 04.

As with any "boom" situation, there are those individuals who do not want to "play by the rules." During FY 05, the investigative staff received 1,101 new complaints. This was an increase of approximately 12.9 percent over FY 04. During the first three months of FY 06, the Department has received 372 new complaints. For FY 05, there have been 391 cases forwarded to the Department's Administrative Actions Division where 174 cases were sent to the Attorney General's Office, 75 Commissioner's Orders issued and 115 Consent Orders were approved. There is currently a 251 case backlog.

The Department staff has risen to the task at hand, with many of them doing the work equivalent of 1-1/4 to 1-1/2 people so we can continue to get the work processed in a timely manner. Yet despite the lack of funding, the lack of staff, and the overwhelming increase in the workload, the staff has managed to maintain an average "excellent" to "good" customer service rating of 96.9 percent.